VZCZCXYZ0013
RR RUEHWEB

DE RUEHLGB #0592/01 1761152
ZNR UUUUU ZZH
R 251152Z JUN 07
FM AMEMBASSY KIGALI
TO RUEHC/SECSTATE WASHDC 4329
RUEHJB/AMEMBASSY BUJUMBURA 0085
RUEHBS/AMEMBASSY BRUSSELS 0131

UNCLAS KIGALI 000592

SIPDIS

SENSITIVE
SIPDIS

DEPARTMENT FOR AF/C
DEPARTMENT PASS USTDA: UISZLER
DEPARTMENT PASS USTR: WJACKSON
DEPARTMENT PASS COMMERCE: RTELCHIN
DEPARTMENT PASS OPIC: BCAMERON

E.O. 12958: N/A
TAGS: ECON PGOV EINV ETRD BTIO RW
SUBJECT: CHALLENGES IN THE RWANDAN COFFEE SECTOR

¶1. (U) SUMMARY. RwandEx, a coffee export company recently privatized to a group of Belgian investors who have been involved in the company since its inception in 1964, is having an increasingly confrontational relationship with the GOR. Coupled with the relatively low coffee harvest season, these disputes shed light on the fact that coffee is not yet the panacea for Rwandas development challenges. END SUMMARY.

¶2. (U) Majority shareholders, Albert Asson and Alain Vigneron, along with Managing Director, Regis Bare, recently recounted their troubles with the GOR to the mission. Prior to the March 2007 privatization, the GOR held a 51 stake in RwandEx and led the company into equity positions with other GOR holdings. These poorly managed parastatals contributed to RwandEx`s approximately USD 1 million burden of back-taxes. The tax arguments were resolved during the recent visit of the Belgian Minister of Cooperation with the GOR agreeing to take on their share of the taxes. Since then, however, RwandEx, which remains heavily in debt, faces new points of contention with the Rwanda Revenue Authority (RRA), and the two sides are currently in court. RwandEx portrays this issue as indicative of Rwanda`s unfriendliness to foreign investors and says the Belgian Ambassador has begun serious lobbying efforts with the GOR on its behalf.

¶3. (SBU) Since 2005, the GOR has made a concerted effort to follow a strategic plan of developing a specialty coffee industry and marketing Rwandan coffee as high-grade and high-quality. In fact, OCIR Cafe, the national coffee board, is pushing the country in the direction of producing 100 percent specialty, or fully-washed, coffee. At times, this laudable overall goal is poorly implemented by local officials. For example, Tim Shilling, director of USAID`s SPREAD project, reports that in some areas, local officials have been confiscating individual farmers` hand pulpers, in an effort to force the farmers to sell their coffee cherries to washing stations that produce specialty coffee. Commonly these farmers pulp the cherries themselves to produce commercial grade coffee, which sells at a lower price on the international market. RwandEx`s business, however, has been built around commercial grade coffee and is known among growers to provide an alternative to selling to washing stations. This places RwandEx in direct confrontation with the GOR plan for the industry. Shilling confirmed that the GOR has prevented RwandEx from buying cherries for use in commercial grade coffee, until June in a further effort to direct all sales to washing stations to produce specialty coffee -- an action OCIR Cafe has

announced for the past two years.

¶4. (SBU) The RwandEx Board Members complained that the GOR has launched a campaign of misinformation and illegal tactics to push RwandEx out of the country. They report that Minister of Finance, James Musoni, in a recent RPF party meeting accused RwandEx of trying to destroy the country`s specialty coffee industry. They also complain that the GOR has begun to control RwandEx`s finances with the Central Bank requiring the company to justify each of their expenses and putting pressure on commercial banks from lending to the company. These controls are particularly threatening to RwandEx, as their accounts are blocked during each of these inquiries. For example, the Board Members report that their accounts have been blocked three times during the last few buying seasons, preventing them from buying coffee from the growers. This has resulted in the company losing approximately 200 tons a day for 30 days at a time. They claim that as soon as their local competitors reach their capacity, the Central Bank lifts its ban on RwandEx` financing and enables it purchase coffee. RwandEx claims that these tactics have resulted in a loss of up to 18,000 tons of coffee cherries that the company could process for export.

¶5. (SBU) The managing directors of several commercial banks, however, have a different take on the conflict. COGEBANK reports that RwandEx has an unpaid loan for USD 1 million; Banque de Kigali (BK) reports a loan of USD 3 million; and Banque Populaire reports USD 1 million. Bonaventure Niyibizi, managing director of COGEBANK, defends the Central Bank`s supervision of RwandEx`s finances explaining that the exporter should not have access to future financing until it can service its existing debt. He says that RwandEx sold 12,000 tons of coffee last year, but has not been able to service any of its debt with BK. Paul Stewart, country director for TechnoServe, an NGO helping with financing, strategy, and capacity building in Rwandas coffee industry, confirms that RwandEx is in dire financial straits and that farmer cooperatives, in addition to commercial banks, have lost confidence in dealing with the company.

¶6. (SBU) RwandEx claims that while their traditional business has been commercial grade coffee, they financed five washing stations last year and are eager to move more deeply into the specialty coffee market. They warn, as do most experienced coffee experts in the country, that the GORs goal for 2008 to produce 100 specialty coffee is flawed and unrealistic. USAIDs coffee project reports that in 2006, one-third of the specialty coffee production in Rwanda went unsold (Note: the coffee was eventually sold as commercial grade coffee as opposed to specialty coffee) because of its poor quality, and that all the washing stations are currently operating at an unsustainably low 30% of capacity.

¶7. (SBU) Compounding the challenge for the owners of the washing stations is the fact that after decades of neglecting coffee production, the volume of coffee cherries in the country is low this season, leading to higher competition for the cherries. This bodes well for the farmers who used to fetch 50RwF per kilo and now command 100RwF per kilo. But it also means that many of the country`s 120 washing stations will inevitably go out of business. Thirteen have already pulled out of the current harvest season due to an inability to finance operations.

¶8. Many explanations are reported for the current predictions of a smaller 2007 coffee harvest, from old coffee trees to lack of fertilizer used by the farmers to the cyclical nature of production of the coffee plant. Nonetheless, all experts in the sector warn of a significant drop in coffee revenues for 2007 and financial stress on new coffee processors and exporters (Note: last year`s harvest was 26,000 tons and this year`s production is expected to be as low as 14,000 tons according to TechnoServe). RwandEx fears that they will be turned into

the scapegoat for Rwanda`s undelivered expectations in the coffee industry and that the GOR seeks to force them to pump more money into the country from their inaccurately perceived deep pockets abroad.

¶8. (SBU) COMMENT. While RwandEx does not appear to be adapting well to the newly liberalized and competitive coffee industry, where they are no longer the sole coffee exporter with monopolistic power, they also are suffering the effects of challenging an explicitly stated GOR strategy. As opposed to providing incentives to farmers and exporters to shift to specialty coffee production, the GOR penalizes farmers and exporters for continuing in the commercial grade coffee business. For example, TechnoServe reports that in addition to confiscating hand pulpers, the GOR has introduced fines and other punitive acts for farmers and exporters continuing in the commercial grade coffee business. RwandEx and TechnoServe also report unilateral and sudden regulations, such as prohibiting the use of mechanical dryers that affect all exporters, most acutely RwandEx, which had recently purchased these machines from the GOR during the privatization. This heavy-handed approach to development seems to be the cause of RwandEx`s woes more than any claimed GOR strategy to remove foreign investors. It is true that since RwandEx`s privatization, the company has suffered non-consultative regulations impacting their bottom line such as prohibiting the use of mechanical dryers, which RwandEx recently purchased directly from the GOR, but these unilateral and sudden regulations negatively affect all exporters, not specifically RwandEx. Nonetheless, RwandEx has been pushed further into insolvency by these recent decisions. Unless RwandEx is able to restructure its massive debt, which currently appears unlikely, the company directors claim that they will have no choice but to pull out of the market.

¶9. (U) COMMENT CONTINUED. Rwandex`s troubles also indicate challenges in the coffee sector that are often ignored in the media and by some donors. USAID has made great strides in establishing a specialty coffee industry in Rwanda, but

there are underlying institutional challenges that must be addressed -- low fertilizer use, over-proliferation of washing stations, poor tree maintenance, low availability of credit, etc. Before specialty coffee can be a sustainable success and expand coffee income well beyond present levels for farmers and for the GOR, these challenges need to be addressed in a consultative and inclusive manner. END COMMENT.

ARIETTI